

## **2012-104 AUDIT SCOPE AND OBJECTIVES—Southeast Los Angeles County—Water Cost and Delivery**

The audit by the State Auditor's Office will provide independently developed and verified information related to the cost of water in Los Angeles County and will include, but not be limited to, the following:

1. Review and evaluate the laws, rules, and regulations significant to the audit objectives.
2. Identify the roles—related to the delivery and sale of water in Southern California—of the Metropolitan Water District of Southern California (MWD), the Water Replenishment District of Southern California (replenishment district), wholesale water suppliers (such as the Central Basin Municipal Water District), and retail water suppliers.
3. Identify the regulatory role of the California Public Utilities Commission with respect to overseeing the rates set by the area's privately owned water suppliers.
4. Select two wholesale water suppliers (the central basin water district and another wholesale water supplier that receives water from the MWD) and three retail water suppliers that supply water to Los Angeles County. To the extent possible, for each water wholesaler and retailer selected, perform the following:
  - a. Review and evaluate the process and basis each water supplier uses for establishing its water rates.
  - b. Identify the significant factors that contribute to the water rates each supplier charges its respective customers and any major differences in water rates charged by each water supplier.
  - c. Review and assess any changes in rates over the most recent five-year period and the reasons for any major changes in the water rates.
  - d. Review a sample of expenditures over the last five years, including expenditures for infrastructure projects, bonds, and general operations. Determine whether those expenditures were allowable and reasonable.
  - e. Examine any increases in each water supplier's respective administrative costs and reserve amounts over the last five years. Identify the reasons for any major increases and whether they were reasonable and necessary.
5. Identify any best practices for streamlining and making water delivery more cost-effective for the residents in Los Angeles County.
6. Review and assess any other issues that are significant to the cost and delivery of water to Los Angeles County residents and businesses.

